Trust Banking

Trust Banking Records Set in 1982 As Assets, Number of Accounts Climb

By DAVID O. TYSON

NEW YORK — Growth of the trust banking industry broke records in 1982.

Assets rose by more than $100 billion, the most ever. An annual government survey shows assets totaled $689 billion at the end of the year, a record. The number of trust accounts continued a steady climb to 1,449,956, also a record. And for the first time in five years, the number of institutions exercising trust powers increased.

D. Stephen Farley, president of the American Bankers Association trust division, attributed much of the growth to market gain. But he said also that trust investment performance is better and banks are handling trust accounts in specialized ways, depending on customer need.

"I think there's been a dramatic breakthrough in trust aggressiveness," Mr. Farley said in a telephone interview from Minneapolis. He is vice president for trust administration at Norwest Corp.

"And I think our performance has been up dramatically in the trust industry," he went on. "You can't look at any survey today without seeing that trust is highly competitive."

Employee benefit accounts showed the biggest expansion in the trust industry last year. And by type asset, it was the year for bonds, especially municipals. While municipal bond holdings declined 1.7% in trust portfolios in 1981, they increased by 37.3% in 1982, rising to $39.1 billion.

The numbers come from the annual survey conducted by the three federal bank regulatory agencies. The Federal Deposit Insurance Corp., which acts as

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Jake Butcher Accuses the FDIC Of Using Pressure Tactics Against Him

Special to the American Banker

KNOXVILLE, Tenn. — Jake Butcher has accused the Federal Deposit Insurance Corp. of coercing a bank to join in an involuntary bankruptcy petition against him, and he has denied the debt to another bank in an answer to the petition.

The FDIC, the First Peoples Bank of Washington County, Johnson City, Tenn., and American National Bank and Trust Co., Chattanooga, Tenn., filed the petition June 29, citing debts of $12.9 million.

In the answer, Mr. Butcher "alleges the individual purportedly signing on behalf of First Peoples Bank of Washington County did so at the behest of the FDIC under reasonable apprehension that if he did not do so the FDIC would take adverse action against him and/or the named bank." Mr. Butcher also claimed the officer did not have the authority to join the petition.

John Paul Neas, a senior vice president at First Peoples, denied the charges, saying Mr. Butcher seemed to be "grasping at straws."

The FDIC claims it holds debts of more than $10.5 million from 23 loans it acquired as receiver for six failed banks once controlled by Mr. Butcher and his brother, C.H Butcher Jr.

Mr. Butcher also claimed that a guaranty under which American National was suing on two loans worth $80,333 was not valid.

"Counsel for Mr. Butcher has twice sought, and has twice been promised, a copy of said guaranty," the answer states. "To date such copy has not been forthcoming."

Mr Butcher asks that the petition thus be dismissed. If his request is denied, he said he wished to convert the case from liquidation into Chapter 11, where he continues to operate his finances. Mr. Butcher would then work out a repayment plan while under

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INTERNATIONAL BRIEFING

Boost in Large UK Bills Points to 'Gray Economy'

LONDON — The Bank of England's 1983 report, published this week, shows another increase in the proportion of higher-denomination bank notes in circulation. The bank itself makes no comment beyond noting that this "trend of recent years continued" during the 12 months through the end of February, the period covered by its annual reports.

Many observers, however, have come to look on the bank's yearly breakdown of bank notes in circulation as one indicator of the growth of the "gray economy," in which cash changes hands outside the purview of the tax authorities.

As shown in the accompanying table, during the past four years alone, the proportion of higher-value bank notes has risen from about half to almost two-thirds of the value of all notes in circulation. As the same time, the proportion of lower-denomination notes has fallen to less than a third.

The low-denomination notes are the 1 pound and 5 pounds sterling notes, roughly equivalent at present to $1.50 and $7.50. The higher-denomination notes are those for 10, 20, and 50 pounds sterling, approximately equal at present to $15, $30, and $75.

The increase in the proportion of higher-denomination notes in the total value of those circulating can be explained only partly by inflation. There is growing acceptance that an important part of the increase reflects the expansion of the gray economy.

The gray economy phenomenon had become sufficiently important in all the mature industrialized countries a few years ago to prompt a special study by the Organization for Economic Cooperation and Development.

Study Shows Erosion of Tax Morality in OECD Countries

The OECD study, which was inconclusive, merely confirmed impressionistic evidence of an erosion of tax morality in all its member countries. In Italy, an extreme example, where tax evasion may have approached levels more common in the developing countries, some economists estimate the total output of goods and services at up to an additional one-quarter above the value of the gross national product, as officially computed.

In northern Europe and North America, the size of the gray economy tends to be estimated at somewhere between 5% and 10% of officially recorded GNP.

That impression is very roughly confirmed by the Bank of England's latest data. The value of bank notes in circulation amounts to approximately 10% of the broadly defined money supply. The 65% of higher-denomination notes in the total value of the note circulation, therefore, represents about 6½% of the money supply.

Since some of those bank notes are used for legitimate transactions, the size of Britain's gray economy would seem to be at the lower end of the OECD spectrum, perhaps equal to 5% or less of recorded GNP.

But even that much is troubling in a country where tax morality has traditionally been high, and the apparent growth of Britain's gray economy is likewise a matter of concern. Some critics view the apparent expansion of the gray economy in many countries as a form of voting against rising government expenditures and taxation.

British Currency in Circulation
(As a Percentage of Total)

Pound Note Denomination	1980	1981	1982	1983
1 and 5	43	40	35	32
10, 20, and 50	52	55	60	65
Other (a)	5	5	5	3
Total	**100**	**100**	**100**	**100**

(a) Consists mainly of notes circulated only within the Bank of England for technical accounting reasons. Years' end Feb. 28.
Source: The Bank of England.

—M.S. Mendelsohn

INTERNATIONAL APPOINTMENTS: **National Westminster Bank PLC** appointed John Lamb senior accounts executive and head of marketing for its New York office. Mr. Lamb was previously based in Stockholm as the bank's Scandinavian representative.

Midland Bank PLC announced in London that Ian Patterson has been named chief executive officer of the Forward Trust Group, a finance subsidiary of the bank engaged in installment credit, leasing, and factoring, effective Oct. 1. He will replace Brian Goldthorpe, who will become a director of the parent company. Mr. Paterson is currently deputy chief executive of the unit.

Oesterreichische Laenderbank — Austria's third largest bank in this newspaper's most recent ranking — said in Vienna that it has appointed Dr. Oswald E. Judar as head of its international department. Dr. Judar is a 28-year veteran of Chase Manhattan Bank NA, where his most recent assignment was as manager of the Frankfurt branch.

Trust Banking

Trust Assets . . .

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agent for the others in compiling the survey report, will publish it shortly. It made summary tables available to American Banker.

The 1982 survey covered 4,041 banks, up from 4,021 in 1981. Their $[illegible]0.0 billion in discretionary trust assets represented a 17.6% increase from $585.8 billion in 1981.

Though new business, especially from employee benefit plans, contributed to the increase, higher prices in all the securities markets was the major reason. Standard & Poor's 500 common stock index, with dividends reinvested, had a total return of 21.6% in the year and the Salomon Brothers Bond Index, 43.7%.

The trust departments' holdings of common stock rose from $248.7 billion to $287.8 billion in the year, a gain of 15.7%.

This falls short of the percentage gain in the market, but that does not necessarily denote poor investment performance. Shifts among different types of assets and distributions from trust accounts also affect the change.

Small Share of Trillion Dollar Universe

The regulators' survey before 1978 tallied all trust assets. In that year it started collecting data only on assets where trust departments exercise investment discretion, either solely or shared.

The results showed that the influence of trust investment managers over corporations was not as pervasive as some imagined, and it has declined since.

At the end of 1978, the trust industry held common shares worth $205.1 billion and preferred stock worth $4.0 billion, a total of $209.1 billion. This was 21.3% of all the stock outstanding at the time, estimated in the Federal Reserve flow-of-funds accounts at $982.5 billion.

In 1979, all the stock outstanding in the U.S. went over a trillion dollars for the first time, to $1.1795 trillion. Discretionary stock in trust accounts also was up, to $233.3 billion, but its ratio to the total was down to 19.8%.

Trust Assets of Banks and Trust Companies

(Dollars in Thousands)

	TRUST AND ESTATES				AGENCIES		TOTAL
	Employee Benefit	Personal Trusts	Estates	Subtotal	Employee Benefit	All Others	
Nonint. Bearing Deposits — Own Bank	629,042	1,371,795	223,406	2,224,237	145,975	649,538	3,019,752
Nonint. Bearing Deposits — Other	9,977	39,675	2,915	52,568	232,593	46,632	331,793
Int. Bearing Deposits — Own Bank	2,163,279	2,515,849	501,947	5,181,070	190,681	1,895,947	7,267,703
Int. Bearing Deposits — Other	9,444,635	2,981,095	303,156	12,728,887	1,091,835	12,310,005	26,130,728
U.S. Govt. & Agency Obligations (a)	38,085,832	25,340,374	2,105,034	65,531,235	21,072,820	27,719,131	114,323,189
State, County, Municipal Oblig.	129,765	26,142,447	867,635	27,139,850	229,845	11,702,925	39,072,620
Other Short-Term Obligations	37,023,939	20,829,990	2,788,479	60,642,408	5,812,343	23,018,313	89,473,068
Other Notes and Bonds (a)	22,546,677	12,386,840	492,735	35,426,255	18,615,981	13,284,708	67,326,942
Preferred Stocks	758,598	1,749,790	104,665	2,613,054	295,789	1,024,165	3,933,008
Common Stocks	87,291,127	119,616,436	5,544,079	212,451,647	32,099,516	43,204,011	287,755,171
Real Estate Mortgages	2,057,599	3,725,661	607,511	6,390,767	552,700	1,158,194	8,101,663
Real Estate	2,742,088	18,085,432	3,742,775	24,570,295	464,652	3,461,112	28,496,055
Miscellaneous	6,577,795	4,045,753	836,340	11,459,881	735,429	1,612,730	13,808,046
Total Assets	**209,460,337**	**238,831,120**	**18,120,683**	**466,412,141**	**81,540,159**	**141,087,421**	**689,039,724**
Total Number of Accounts	**320,548**	**875,217**	**91,370**	**1,287,139**	**21,949**	**140,862**	**1,449,956**

(a) Includes 10,622,546 (in thousands) of real estate mortgage pool pass-through certificates.

Bank Record Count 4,041

Trust Assets by Type of Account for Last Three Years

(Dollars in Thousands)

Type of Account	1980	1981	1982	% Change 1980-1981	% Change 1981-1982
Total Trusts and Estates	404,235,106	406,774,005	466,412,141	+0.6	+14.7
Employee Benefits	175,242,778	177,026,478	209,460,337	+1.0	+18.3
Personal Trusts and Estates	228,992,327	229,747,522	256,951,803	+0.3	+11.8
Total Agencies	166,958,641	179,014,471	222,627,580	+7.2	+24.4
Employee Benefits	53,749,020	63,837,931	81,540,159	+18.8	+27.7
All Others	113,209,621	115,176,540	141,087,421	+1.7	+22.5
Total	**571,193,771**	**585,788,478**	**689,039,724**	**+2.6**	**+17.6**
Number of Accounts	**1,401,540**	**1,419,541**	**1,449,956**	**+1.3**	**+2.1**

In 1980, stock outstanding was up to $1.5721 trillion. Stock in trust accounts was up to $278.9 billion. The ratio was down again to 17.7%.

In 1981, declining market prices lowered the value of all the stock outstanding to $1.5045 trillion. Trust holdings were down, to $252.4 billion. And the ratio also was down as well, to 16.8%.

Last year, the boom that began in August helped raise the value of all stock outstanding to $1.7218 trillion and the shares in trust accounts to $291.7 billion, both records. The ratio of one to the other was 16.9%, a gain of a tenth of a percentage point, which may not be statistically significant.

Own Bank Balances Down

As one of the accompanying tables shows, trusteed employee benefit assets rose by 18.3% last year, from $177.0 billion to $209.5 billion. In these, the bank or trust company is the trustee or named fiduciary of a plan and also has investment discretion. Banks can commingle them.

They also include individual retirement accounts and Keogh accounts administered in the trust department. But in a master trust, the definition covers only that chunk assigned to the trustee to manage.

Employee benefit agency accounts rose 27.7%, from $63.8 billion to $81.5 billion. In these, the institution may not have custody of the shares, but it directs how they are to be invested. They may not be commingled. The bank must invest them directly from each account, since it acts only as the agent for the customer, not as a trustee with all the solemn obligations that entails.

The number of accounts in all segments of the trust asset management business were up last year except for estates. These declined in number from 95,366 to 91,370. But the assets in estates rose from $17.6 billion to $18.1 billion.

In an otherwise up year for trust banking, the only type of asset to shrink was noninterest-bearing deposits in own bank. In what may or may not gratify critics who charge banks with undue use of trust cash, these balances were down 7.4%, from $3.26 billion to $3.02 billion. ■

Money Market Mutual Funds

July 19, 1983

The table below presents certain statistics as of the date indicated for money market mutual funds whose shares are held largely in trust accounts. The information includes the fund size in millions of dollars, average portfolio maturity, percent of portfolio due in seven days or less, and the rates of total return for the preceding seven and 30 days. The table is compiled by Joanne M. Bitterman.

	Size $ Mil.	Average Maturity (days)	% due 7 Days or less	% Rate of Return 7-day	% Rate of Return 30-day
Dreyfus Money Market Instruments:					
Money Market Series	1,057.3	58	17	8.5	8.4
Dreyfus Institutional Money Market Fund:					
Government Securities Series	614.5	67	17	8.2	8.2
Money Market Series	515.2	59	16	8.5	8.4
Federated Group:					
Federated Master Trust	2,956.3	25	23	8.7	8.6
Money Market Trust	2,170.9	26	26	8.7	8.5
Trust for Short-Term U.S. Govt. Sec.	6,767.3	41	28	8.5	8.4
Trust for U.S. Treasury Obligations	1,970.9	37	23	8.4	8.4
Fidelity Money Market Trust:					
U.S. Government Portfolio	681.4	29	33	8.9	8.7
Domestic Money Market Portfolio	1,595.1	33	22	9.0	8.8
Treasury Portfolio	166.9	6	85	8.8	8.8
Institutional Liquid Assets:					
Prime Obligations Portfolio	3,015.7	33	21	8.9	8.7
Government Portfolio	1,246.2	31	46	8.7	8.6
Treasury Portfolio	250.4	34	42	8.7	8.6
Merrill Lynch Group:					
Merrill Lynch Institutional Fund	965.6	34	21	8.6	8.4
Merrill Lynch Government Fund	1,465.0	37	18	8.3	8.1
Scudder Cash Investment Trust	909.0	32	15	8.1	7.9
Shearson/American Express Group:					
TempFund	3,800.7	39	12	8.9	8.8
FedFund	1,408.4	31	35	8.7	8.6
T-Fund	849.3	34	35	8.7	8.6
TrustFunds Liquid Asset Trust:					
Treasury Portfolio	724.0	34	40	8.6	8.5
Agency Portfolio	184.0	30	36	8.6	8.5
Commercial Portfolio	163.1	29	22	8.9	8.7
Prime Obligations Portfolio	589.1	33	18	8.6	8.5

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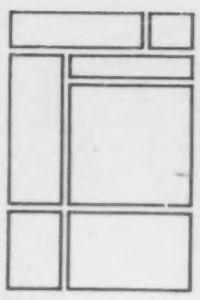

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Assets of Top 10 Banking Companies

(In Billions of Dollars)

		6-30-83	6-30-82	Change
1	Citicorp	$130.2	$120.1	+ 8%
2	BankAmerica Corp.	121.0	121.7	- 1
3	Chase Manhattan Corp.	81.5	79.2	+ 3
4	Manufacturers Hanover Corp.	63.3	58.3	+ 9
5	J.P. Morgan & Co. Inc.	59.2	58.6	+ 1
6	Chemical New York Corp.	48.9	45.4	+ 8
7	Continental Illinois Corp.	41.0	42.9	- 4
8	First Interstate Bancorp	40.8	37.8	+ 8
9	Bankers Trust New York Corp.	37.7	36.9	+ 2
10	Security Pacific Corp.	37.7	34.3	+10
	Totals	**$661.3**	**$635.2**	**+ 4%**

Citicorp Still No. 1 — for Now

NEW YORK — Citicorp for the last year has headed the list of the largest bank holding companies in the country. And based on June 30 balance sheet figures, it remains in first place. But BankAmerica Corp.'s recent acquisition of Seafirst Corp. is expected to push the San Francisco company back into the top spot that it relinquished to Citicorp.

BankAmerica had $121 billion in assets at midyear. A pro forma combination of BankAmerica's and Seafirst's assets, based on the latest available figures, would make the San Francisco holding company the largest in the nation, with $130.6

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IRAs Take a $4.5 Billion Tax Bite

By ALICE ARVAN

NEW YORK — Since all working Americans became eligible for individual retirement accounts, or IRAs, in January 1982, one unexpected effect of the popular new instruments has been a $4.5 billion loss in federal tax revenues.

This loss in tax income is $3 billion more than the $1.5 billion loss which officials had anticipated, according to a spokesman for the Treasury's office of tax analysis.

Individual retirement account and Keogh investors in commercial banks, thrifts, and money market mutual funds increased the total amount on deposit in these accounts by an estimated $3.8 billion from April 30 through June 31, according to preliminary figures published by the Federal Reserve Bank.

Measured by market shares, these figures show commercial banks capturing 40.5% of the $3.8 billion increase; thrifts holding a 51.5% share; and money market mutual funds an 8% share. As of June 1983, preliminary figures show a total of $68.9 billion on

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Compromise Worked Out On Withholding Repeal Bill

By LISA J. Mc CUE

WASHINGTON — The House-Senate conference on withholding appears to have created a compromise repeal package that will be acceptable to the administration and to the financial lobbies.

The congressional taxwriters Thursday were attempting to make final a compromise plan that would strike from law the withholding plan and impose some additional tax-compliance measures.

They tentatively agreed to the plan late Wednesday, but negotiations stopped short of final approval because of an impasse regarding an amendment concerning tax-exempt mortgage bonds. The committee was expected to resolve that deadlock late Thursday and drop the mortgage bond amendment.

Precise details on the package were unclear as of Thursday afternoon because of continuing negotiations. However, interviews with financial lobbies indicated the compromise package would be acceptable both to parties that had favored the Senate version, which contained many compliance measures, and to those that had supported the

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Lawmaker Weighs Select Committee To Consider Deregulation Measure

By TERESA CARSON

WASHINGTON — A Georgia congressman said Thursday that he is considering pushing for the creation of a special select committee to handle legislation dealing with financial services deregulation.

Speaking at hearings of the commerce, consumer, and monetary affairs subcommittee of the House Committee on Government Operations, the congressman, Rep. Doug Barnard, D-Georgia, said he is "investigating the advisability" of creating a select or ad hoc committee.

A committee staff member said a select committee would expedite the House's consideration of the broad financial industries deregulation measure proposed by the Reagan administration.

He said the bill contains provisions that would have to be addressed by two House committees, and that creating a single committee would streamline the legislative process.

The hearings examined "confusion in the legal framework of the American financial system and service industry." Thursday's hearings wrapped up the sessions with testimony from top attorneys representing the four bank and thrift regulatory agencies.

The attorneys discussed, among other topics, the problems created by loophole banks, or nonbank banks, and the operation of these institutions by nondepository companies such as

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